

Message Text

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ACTION EUR-12

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E FOR COOPER, EUR FOR HARTMAN AND ALBRECHT; EB FOR
KATZ AND BOEKER

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SUBJECT: ISSUES FOR FEBRUARY 28 MEETING OF WORKING
PARTY 3 OF EPC

REF: (A) OECD PARIS 4804; (B) CPE/WP3(77)1; (C)

CPE/WP3(77)1; (D) DES/NI(77)1; (E) DES/NI(77)2

(F) OECD PARIS 3846

1. SUMMARY AND INTRODUCTION: FOR THE MEETING OF WORKING PARTY 3 SCHEDULED FOR FEBRUARY 28, SECRETARIAT SEEKS TO FOCUS ON THE MEDIUM TERM (THROUGH 1979) PATTERN AND POLICY PROBLEMS OF THE BALANCE OF PAYMENTS ADJUSTMENT PROCESS. WHILE RELATED TO THE OVERALL PERSPECTIVE OF INTER-LINKAGES ACROSS SPECTRUMS OF ECONOMIC POLICY NOTED IN REFTEL A, THE APPROACH AND QUESTIONS POSED IN THE SECRETARIAT'S DOCUMENTATION FOR WP-3 DO TAKE A LONGER

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TERM PERSPECTIVE THAN DOCUMENTATION FOR EPC AND XCSS BEING DESCRIBED IN SEPTELS. IN FACT, THE MORE IMMEDIATE ISSUES OF ADJUSTMENT, AS WELL AS THE RELATIONSHIP BETWEEN SHORT-RUN DEMAND MANAGEMENT AND ADJUSTMENT POLICIES, ARE BEING POSED IN THE EPC CONTEXT RATHER THAN FOR WP-3. SECRETARIAT INDICATES TO US, HOWEVER, THAT GIVEN THAT THE ADJUSTMENT PROCESS IS THE SPECIAL COMPETENCE OF

WP-3, THEY WOULD HOPE THAT WP-3 WILL, IN THE COURSE OF ITS DISCUSSIONS, TAKE ACCOUNT OF THE ISSUES POSED IN THE EPC DOCUMENTATION AND THUS PREPARE THE GROUND FOR THE LATTER. THIS IS IN ANY EVENT LOGICAL INASMUCH AS WP-3 WOULD PRECEDE EPC.

2. AS OUTLINED BELOW, THE SECRETARIAT'S PAPERS FOR WP-3 (A) POSE QUESTIONS FOR THE MEDIUM TERM ADJUSTMENT PROCESS SUCH AS THE URGENCY OF ADJUSTMENT AND THE PROSPECTS AND POLICIES REQUIRED FOR REDISTRIBUTION OF THE OECD DEFICIT AND (B) SEEK TO PUT OECD ADJUSTMENT WITHIN THE CONTEXT OF THE WORLD PAYMENTS PATTERN. IN THIS SENSE, THE SECRETARIAT PROPOSES THAT ENERGY CONSERVATION AND LARGER AID FLOWS COULD HELP IN REDUCING THE GLOBAL OECD DEFICIT. UNDERLYING THE SECRETARIAT'S QUESTIONS IS A PROPOSED NEW SCENARIO OF THE POSSIBLE EVOLUTION OF OECD CURRENT BALANCES THROUGH 1979. THE PROCEDURAL PROPOSAL OF THE SECRETARIAT IS THAT THE ISSUES POSED AND THE TECHNICAL SCENARIO MIGHT BE ASSIGNED FOR EXAMINATION WITH THE HELP OF OFFICIAL EXPERTS FOR REPORTING BACK TO WP-3. END SUMMARY

3. THE MAIN ISSUES (REF C) ARE POSED IN FRAMEWORK OF MEDIUM-TERM SCENARIO FOR OECD CURRENT BALANCES (SEE PARA 5 BELOW) AND SUGGEST (IF METHODOLOGY AND RESULTS OF THE SCENARIO AS A FIRST APPROXIMATION ARE ACCEPTABLE), THREE GENERAL QUESTIONS FOR PRELIMINARY DISCUSSION:

(A) DEGREE OF URGENCY IN ACHIEVING ADJUSTMENT IMPLIED IN SCENARIO OR GOING BEYOND IT;
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(B) PROSPECTS FOR REDISTRIBUTION OF DEFICIT AND FOR ACHIEVING SURPLUS IN CASE OF COUNTRIES WITH SUBSTANTIAL DEBT;

(C) "KIND AND RELATIVE POSTURE OF POLICIES LIKELY TO ACHIEVE A MEASURABLE AND RAPID SHIFTING OF THE RELATIVE EXTERNAL POSITIONS OF INDIVIDUAL COUNTRIES - IN PARTICULAR, THE IMPACT OF DIFFERENTIAL GROWTH RATES AND MEASURES TO IMPROVE COMPETITIVENESS, BEARING IN MIND LONGER-TERM RESTRUCTURING NEEDS."

4. SECRETARIAT AVOIDS SPECIFIC PROPOSALS IN DEMAND MANAGEMENT AND EXCHANGE RATE AREAS, BUT DOES SUGGEST THAT MORE RAPID REDUCTION OF GLOBAL OECD DEFICIT WOULD ENHANCE

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PROSPECTS FOR ITS MORE FAVORABLE DISTRIBUTION. IN THIS REGARD, IT MAKES TWO SPECIFIC PROPOSALS: (1) ENERGY CONSERVATION, AND (2) GREATER DEVELOPMENT ASSISTANCE EFFORTS.

5. CURRENT BALANCE SCENARIO TO 1979 (REF B) BUILDS ON AN EFFORT INITIATED IN LATE 1975 IN CPE/WP3(75)12, WHICH ITSELF WAS OUTGROWTH OF EARLIER REVIVAL OF "BALANCE OF PAYMENT AIMS" EXERCISE, TO TRACE A POSSIBLE SCENARIO FOR OECD CURRENT ACCOUNT BALANCES OVER THE MEDIUM TERM. PURPOSE IS NOT TO "FORECAST" ACTUAL BALANCES (ALTHOUGH THIS INTERPRETATION HARD TO AVOID), BUT TO ADDRESS FOLLOWING QUESTIONS WITH A VIEW TOWARD DETERMINING WHETHER THE ENVISIONED SCENARIO WOULD IMPLY ADJUSTMENT PROBLEMS:

(A) HOW LARGE MIGHT OECD DEFICIT BE?

(B) HOW IS IT LIKELY TO BE DISTRIBUTED WITHIN OECD?

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(C) HOW DO PROSPECTIVE BALANCES COMPARE WITH LIKELY SUS-

TAINABLE CAPITAL FLOWS?

(D) HOW WILL CUMULATED DEBT INFLUENCE ATTITUDES TO FURTHER BORROWING.

DOCUMENT IS HIGHLY TECHNICAL REGARDING CALCULATION OF "REFERENCE CASE CURRENT BALANCES" AND ALTERNATIVE OUTCOMES IF ASSUMPTIONS VARIED (SENSITIVITY ANALYSIS), BUT DISCUSSION OF FINANCING FLOWS IS JUDGEMENTAL.

6. SECRETARIAT (IN REF C) PROPOSES FORMATION OF EXPERTS GROUP TO EXAMINE METHODOLOGY AND RESULTS OF APPROACH IN MORE DETAIL IF WP-3 IS RELATIVELY SATISFIED WITH INITIAL EFFORT AND FEELS PROBLEMS IDENTIFIED ARE URGENT AND SUSCEPTIBLE TO TREATMENT. SECRETARIAT WOULD REPORT BACK TO WP-3 ON BASIS OF THIS EXAMINATION, AND WP-3 WOULD PURSUE QUESTION AT SUBSEQUENT MEETING.

7. REFS B AND C HAND-CARRIED TO WASHINGTON FEBRUARY 16 FOR TREASURY (VAN BATENBURG). REF D, PROVIDING ANALYSIS UNDERLYING COMPUTATIONS IN REF B OF OPEC SURPLUS AND ITS COUNTERPART IN GLOBAL OECD AND LDC DEFICITS, WILL BE ISSUED SHORTLY TOGETHER WITH REF E.

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